

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

H-02 L-02 PA-01 PRS-01 USIA-06 /092 W

----- 037551

R 161340Z APR 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC 639

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. (ALL FIGURES BELOW SHOWN IN MILLIONS OF DOLLARS UNLESS OTHERWISE STATED.) IN FIRST HALF OF APRIL BANK OF ITALY HAD NET DOLLAR PURCHASES IN EXCHANGE MARKET OF ALMOST \$400. FOR MONTH OF MARCH, PRELIMINARY MONETARY
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MOVEMENTS SHOWED BALANCE OF PAYMENTS SURPLUS OF \$154 OR

\$254 ADJUSTED TO INCLUDE EUROMARKET LOAN TRANSACTIONS. AIN SPECIAL TRANSACTIONS IN MARCH WERE REPAYMENT OF \$500 ON GERMAN GOLD LOAN AND \$380 FINAL IMF STANDBY DRAWING. BOI ANTICIPATES FURTHER ADVANCE PAYMENTS IN IMI EUROMARKET LOANS. BALANCE OF PAYMENTS DATA FOR FIRST TWO MONTHS OF YEAR SUGGEST THAT IMPROVEMENT IN TRADE ACCOUNT WAS SINGLE MOST IMPORTANT FACTOR IN OVERALL BALANCE OF PAYMENTS IMPROVEMENT. END SUMMARY.

2. HEAD OF BANK OF ITALY EXCHANGE OPERATIONS, ERCOLANI, TOLD TREASATT APRIL 15 THAT BANK HAS CONTINUED TO MAKE NET PURCHASES OF DOLLARS IN EXCHANGE MARKET DURING FIRST HALF OF APRIL. ON APRIL 15 ALONE, BANK BOUGHT \$75 AND CUMULATIVE PURCHASES THROUGH THAT DATE WERE NEARLY \$400.

3. PRELIMINARY MONETARY MOVEMENTS DATA FOR MONTH OF MARCH SHOW OVERALL SURPLUS OF \$154 FINANCED AS FOLLOWS: INCREASE IN OFFICIAL CONVERTIBLE CURRENCIES OF \$170, DROP IN SDR'S OF \$24, DECLINE IN SHORT-TERM OFFICIAL LIABILITIES OF \$25, REDUCTION IN MEDIUM-AND LONG-TERM NET OFFICIAL LIABILITIES OF \$139, AND INCREASE IN NET FOREIGN LIABILITIES OF COMMERCIAL BANKS OF \$157. BALANCE OF PAYMENTS SURPLUS ON ADJUSTED BASIS FOR MARCH WAS \$254 IF IMI EUROMARKET LOAN REPAYMENT IS RECORDED IN SAME WAY AS WAS ORIGINAL EUROMARKET BORROWING (I.E., IN MONETARY MOVEMENTS AND NOT IN CAPITAL ACCOUNT).

4. MAJOR EXCEPTIONAL TRANSACTIONS DURING MONTH WERE RECEIPT OF THIRD AND LAST IMF STANDBY DRAWING OF \$380, REPAYMENT OF \$100 ON 1970 (NOT 1972) IMI EUROMARKET LOAN AND REPAYMENT OF \$50 BY FIRST NATIONAL CITY BANK MILAN TO FIRST NATIONAL CITY BANK NEW YORK (LATTER INCLUDED IN CHANGE IN NET FOREIGN POSITION OF COMMERCIAL BANKS). ERCOLANI INDICATED THAT ADVANCE PAYMENTS OF \$250 IN 1972 IMI EUROMARKET LOAN WILL BE MADE IN TWO TRANCHES DURING APRIL.

5. CUMULATIVE BALANCE OF PAYMENTS DEFICIT FOR FIRST QUARTER WAS \$154 FINANCED AS FOLLOWS: DECLINE IN OFFICIAL CONVERTIBLE CURRENCIES OF \$205, DROP IN SDR HOLDINGS OF \$18, REDUCTION IN SHORT-TERM OFFICIAL LIABILITIES OF \$8, DECLINE IN NET MEDIUM-AND LONG-TERM LIABILITIES OF \$82, LIMITED OFFICIAL USE

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AND INCREASE IN COMMERCIAL BANKS' NET FOREIGN LIABILITIES OF \$21.

6. BOI OFFICIALS CONTINUE TO BE SOMEWHAT PUZZLED BY RAPIDITY AND SIZE OF IMPROVEMENT IN ITALY'S BALANCE OF PAYMENTS IN FIRST QUARTER. CUSTOMS DATA AND PRELIMINARY PAYMENTS DATA FOR MONTH OF FEBRUARY SHOW THAT REDUCTION IN TRADE DEFICIT, (BOTH OIL AND NON-OIL), RATHER THAN LARGE CAPITAL ACCOUNT

IMPROVEMENT, HAS BEEN MAJOR FACTOR IN OVERALL IMPROVEMENT.
 (WHILE CAPITAL ACCOUNT WAS IN SURPLUS FOR TWO-MONTH PERIOD
 JANUARY-FEBRUARY, THERE WAS, IN FACT, SMALL DEFICIT IN FEBRUARY.)
 REDUCTION IN TRADE DEFICIT WAS MAINLY DUE TO DECLINE IN
 IMPORTS BECAUSE OF INVENTORY ADJUSTMENT AND TO LOW LEVEL OF
 INDUSTRIAL PRODUCTION. THIS PATTERN MAY HAVE CONTINUED INFO
 MARCH AND APRIL. HOWEVER, ERCOLANI WAS SOMEWHAT CONCERNED
 THAT BALANCE OF PAYMENTS IMPROVEMENT SHOULD DEPEND TOO MUCH
 ON UNACCEPTABLY LOW LEVEL OF DOMESTIC ECONOMIC ACTIVITY, SINCE
 IT IMPLIED THAT THERE COULD BE IMPORT REVIVAL LATER IN YEAR
 ACCOMPANYING ECONOMIC RECOVERY.

7. FOLLOWING TABLE GIVES ROUGH ESTIMATE OF BREAKDOWN OF
 BALANCE OF PAYMENTS FOR FIRST TWO MONTHS OF 1975. IT IS ON
 ADJUSTED PAYMENTS BASIS, I.E., INCLUDING CUSTOMS DATA FOR
 TRADE FIGURES WITH IMPORTS ROUGHLY REDUCED FROM C.I.F. TO
 F.O.B. BASIS.

EXPORTS	5,094	
IMPORTS	5,282	
TRADE BALANCE	-188	
(OIL)	(-961)	
(NON-OIL)	(773)	
SERVICES	-244	
CURRENT ACCOUNT	-432	
COMMERCIAL CREDIT	-188	
OTHER CAPITAL	409	
CAPITAL ACCOUNT	221	
ADJUSTMENTS	-97	
DEFICIT	-308	
FINANCING (- EQUALS INCREASE)		308
OFFICIAL	HD	444
COMMERCIAL BANKS		-136
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8. ON APRIL 15, FOLLOWING FINANCIAL RATES PREVAILED: LIRA
 EXCHANGE RATE WAS 635.45 LIRE PER DOLLAR; THREE-MONTH FORWARD
 RATE WAS 645.15 LIRE PER DOLLAR; WEIGHTED AVERAGE DEVALUATION
 OF LIRA, ACCORDING BOI INDEX, WAS 20.94 PERCENT COMPARED
 TO FEBRUARY 9, 1973 BASE PERIOD; BLACK MARKET RATE IN MILAN
 WAS 655 LIRE PER DOLLAR; THREE-MONTH EUROLIRA INTEREST RATE
 WAS 13-1/8 PERCENT; LIRA INTERBANK FORTY-EIGHT HOUR RATE WAS
 10-6/8 PERCENT; AND LIRA INTERBANK THREE-MONTH RATE WAS 11-7/16
 PERCENT. BEAUDRY

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 16 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ROME05589
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750133-0668
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750446/aaaabqkk.tel
Line Count: 164
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: MorefiRH
Review Comment: n/a
Review Content Flags:
Review Date: 17 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <17 APR 2003 by BoyleJA>; APPROVED <21 MAY 2003 by MorefiRH>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN EXCHANGE MARKET DEVELOPMENTS
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006